

Order 92-54

Workers compensation rate filing made by the national council on compensation insurance

July 22, 1992

On the 25th day of June 1992 beginning at 9:00, a.m., in the Fifth Floor Hearing Room, Arkansas Insurance Department, University Tower Building, Little Rock, Arkansas, pursuant to the provisions of Arkansas Code Annotated s 23-67-119 and s 23-61-303 on the matter of the rate filing made by the National Council on Compensation Insurance ("NCCI") seeking approval of an increase in advisory rates for Workers Compensation insurers in the State of Arkansas. The requested increase was 41.2% in overall premium level.

The hearing was held before the Honorable Lee Douglass, Insurance Commissioner for the State of Arkansas. The Petitioner, NCCI, was represented by its attorneys, W.H.L. Woodyard, III and Nicholas Thompson, of Mitchell, Williams, Selig, Gates and Woodyard, Little Rock, Arkansas. Also, present on behalf of Petitioner were Ken Kennamer, Director, Government Consumer & Industry Affairs for NCCI; Tony DiDonato, Associate Actuary, NCCI. The Insurance Department was represented by Ronald L. Sheffield, Deputy Commissioner, and Jean Langford, Chief Counsel and Martin M. Simons, Consulting Actuary. The hearing was concluded and the record closed on July 5th 1992. Based upon the evidence and testimony received at the hearing, the Commissioner finds as follows:

FINDING OF FACT

1. The Commissioner has jurisdiction over the Petitioner and the rate filing considered at the hearing.
2. The rate filing was filed on April 19, 1992 requesting an overall premium level increase of 38.4%.
3. On June 18, 1992 an addendum was made to the filing increasing the requested level from 38.4% to 41.2%.
4. By letter of April 29, 1992, Martin M. Simons, MAAA, MCA, from Columbia, South Carolina, was retained to review the rate filing on behalf of the Arkansas Insurance Department.
5. Notice of hearing was given to Petitioner by letter dated June 10, 1992 from Deputy Commissioner Ronald L. Sheffield. Said notice was received by Petitioner June 11, 1992.

6. The Petitioner is a licensed advisory rate service organization pursuant to Arkansas Code Annotated s 23-67-101 et seq.

7. Tony DiDonato, actuary, testifying on behalf of Petitioner, testified that the losses for the period of 1985 through 1989 were greater than the premium income before consideration was given to expenses and dividends. That when expenses and dividends were calculated into the equation the industry experienced an overall underwriting loss in premiums.

8. Mr. DiDonato testified that based upon his analysis, the overall requested increase of 38.4% was justified due to increases in loss experience, medical indemnity trend, loss adjustment expense accounts, and benefit levels including a decrease in tax and assessment provisions.

9. Mr. DiDonato also testified that the addendum filed on June 18, 1992 took into consideration the 25% reduction in Class Code 2702 effective January 1, 1992 which had been inadvertently overlooked due to the transition implementation period. The size of the class resulted in an overall reduction in premium of 1%. He further testified that the filing did not include a 2.3% reduction in ARAP effective February 1, 1992 which was not ordered by the Commissioner until June, 1992. This reduction was implemented after the NCCI April filing date. Therefore, these factors accounted for the final requested increase of 41.2%.

10. Petitioner compared premium dollars collected to estimated projected losses. Petitioner testified that because benefit costs have been rising faster than payroll and premium the trend needs to be reflected. To reflect the trend Petitioner used an exponential curve in support of its filing. Using the exponential curve assumes that costs increase by the same dollar amount over time which would imply a decreasing percentage of increase over time.

11. Martin Simons, consulting actuary, retained by the Department to analyze Petitioner's filing, testified that he had differences with the Petitioner's trends, expenses and calculation of the profit and contingency factors.

12. Mr. Simons testified that a change in medical and indemnity trend of 6.8% was more appropriate than the trend factor used by NCCI of 16.4%.

13. Mr. Simons testified that the use of the Exponential Model was new for NCCI in its filing process. Mr. Simons testified that NCCI has traditionally utilized the Linear Regression method in establishing premium levels for Arkansas and surrounding states, and that the use of this model was a diversion from the method used to establish rates for Arkansas and the surrounding states.

14. Mr. Simons testified that his analysis of the filing made by Petitioner indicated that the total production cost relative to premiums in Arkansas was 8% rather than 9.9% as

filed by Petitioner. This cost was developed from a 15% factor in the filing. In Mr. Simons calculations the 15% factor was reduced by 1.5 to 13.5%.

15. Mr. Simons also testified that his analysis showed that the general expense factor should be reduced from 6.7% to 6.5% as indicated by Petitioner. Mr. Simons testified that Petitioner had not shown a reduction in the expense factor for the last year.

16. Mr. Simons testified that Petitioner's filing did not take into consideration income from investments of current reserves and surplus, current loss reserves, current unearned premium reserves and current loss adjustment expense reserves. Therefore, based upon his analysis he would substitute a minus 2.5% rather than a plus 2.5% for profit and contingency factor.

17. Mr. Simons concluded that the requested premium level of 41.2% made by NCCI would produce rates that were excessive but that a rate increase of 18.5% would be justified and would produce rates that are not excessive, inadequate or unfairly discriminatory.

CONCLUSIONS OF LAW

1. That an overall premium level increase of 41.2% would be excessive.
2. That an overall rate increase of 18.5% would not be excessive, inadequate or unfairly discriminatory.
3. That the Petitioner should bear the cost of the Insurance Department's actuarial review pursuant to Ark. Code Ann. s 23-67-119.

IT IS THEREFORE ORDERED that the requested overall premium level increase of 41.2% filed by Petitioner is hereby DENIED.

The Petitioner may, in lieu of an appeal, file an amended rate filing with the Arkansas Insurance Department to reflect an overall rate increase of 18.5% to be effective July 1, 1992 for all new and renewal policies issued on or after that date.

IT IS SO ORDERED this 22nd day of July, 1992.
